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RHEBAAA/DEPT OF ENERGY WASHDC

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RUEKJCS/OSD WASHDC

RHEHNSC/NSC WASHDC

RUCPDOC/USDOC WASHDC 0643

RUEKJCS/SECDEF WASHDC

RUEKJCS/Joint STAFF WASHDC

RUEHGV/USMISSION GENEVA 0750

RUEHVEN/USMISSION USOSCE 2732

RUCNDT/USMISSION USUN NEW YORK 2116

RUEHNO/USMISSION USNATO BRUSSELS BE

RUEHBS/USEU BRUSSELS

RUEHLMC/MILLENNIUM CHALLENGE CORP

RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 04 BISHKEK 001395

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DEPT FOR SCA/CEN (GEHRENBECK)

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TAGS: ECON ENRG PREL KG

SUBJECT: KYRGYZ ELECTRICITY AND NATURAL GAS UPDATE

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Classified By: Charge d'Affaires Lee Litzenberger for Reasons 1.4 (b) a
nd (d)

¶1. (C) Summary: While Kyrgyz Energy Minister Chudinov and other officials embrace Kyrgyz electricity exports to South Asia under the CASAREM umbrella, supply issues, particularly involving Tajikistan, color the discussion of how much electricity may be available for export. Other Kyrgyz officials have concerns about veering from their existing export route north to Kazakhstan. Meanwhile, renewed construction (costing an estimated \$171 million) of the mothballed, Soviet-era Kambarata 2 hydroelectric facility coincides with a slowdown in efforts to "privatize" three Bishkek-based electricity and heating assets. Low water reservoir levels for the existing hydroelectric stations, coupled with uncertain supply issues related to Uzbek natural gas, give Minister Chudinov extra concern about power supplies this winter. If Kazakh plans to diversify natural gas supplies away from Uzbekistan go forward and therefore leave Bishkek to negotiate natural gas supplies alone with Tashkent, the Kyrgyz Republic may become more flexible in meeting Uzbek demands on water, electricity and possibly other issues. End summary.

¶2. (U) During his November 7-10 visit to the Kyrgyz Republic, SCA Senior Advisor for Regional Affairs Robert Deutsch met Acting Minister of Energy, Industry and Fuel Resources Igor Chudinov, Acting Minister of Transport and Communications Nurlan Sulaimanov, Foreign Ministry International Economic Cooperation Department chief Jeenbek Kulubayev, Acting Prime Minister Atambayev's energy advisor Ernest Karybekov, President Bakiyev's Economic Policy Department head Azamat Dikambaev, National Electric Grid General Director Avtandil Sydykov, Electric Power Plants Director General Saparbek Balkibekov, World Bank representative Roger Robinson, Asian Development Bank representatives Ashraf Malik and Lan Wu, energy sector

advisor Janybek Omorov, and representatives of U.S. firm AES.

Kyrgyz Perspectives on CASAREM

¶3. (C) Energy Minister Chudinov expressed appreciation for U.S. support of the Central Asia South Asia Regional Energy Market (CASAREM) initiative, but suggested that, if the Datka-Khojand link is (initially) excluded, Kyrgyz participation in CASAREM would be "meaningless." (Note: The CASAREM agreement, which was signed November 16, incorporated the Kyrgyz line into the program. End note.) To enhance the finances involved in initial Kyrgyz CASAREM participation, the National Grid's Sydykov stripped down the outside consultant's cost estimate for the Datka-Khojand line from \$270 million to \$70 million by eliminating some facilities and reducing the proposed line's capacity. Looking beyond the November 14-16 CASAREM discussions in Kabul, Chudinov told Deutsch that a delegation headed by the Pakistani Minister of Energy would visit Bishkek December 10 for discussions that would include CASAREM.

¶4. (C) Chudinov argued that Tajik electricity supplies are unreliable, and suggested that Tajikistan can only provide surplus electricity in June. Together, he noted, Tajikistan and the Kyrgyz Republic can export two billion kilowatt hours of electricity during the three summer months. At a minimum, he continued, the Kyrgyz Republic can export 1,500 MW of electricity even in "dry years." The National Grid's Sydykov, in a separate meeting with Deutsch, agreed that the Kyrgyz and Tajiks could together meet the initial Pakistani summer power request. The Electric Power Stations' Balkibekov claimed that potential Kyrgyz exports would range from 0.8 to 4 billion kilowatt hours annually. Balkibekov claimed Kyrgyz daily electricity consumption was 36 million

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kilowatt hours. (Comment: An industry insider estimates that daily consumption in the winter can be nearly 60 million kilowatt hours. End comment.)

¶5. (C) When Deutsch queried Balkibekov on the identity of the Kyrgyz counterpart for electricity sales to Pakistan, Balkibekov claimed that he envisioned providing the electricity solely to the Tajik border. Deutsch explained the commitment of electricity for delivery to Pakistan, and the possibility of penalties for noncompliance. Balkibekov said that rising prices and growing shortages of electricity in Kazakhstan were an appealing option for the Kyrgyz. Guaranteeing supplies to Kazakhstan, he reasoned, would establish a solid market for Kyrgyz electricity in the future. While personally endorsing CASAREM, PM advisor Karybekov feared losing market share in Kazakhstan (and Uzbekistan) if electricity exports were redirected to South Asia. President Bakiyev's economic policy advisor Dikambaev highlighted the three possible routes for Kyrgyz electricity exports) 1) South Asia via Tajikistan, 2) China and 3) the "historical" path of ex-Soviet states to the north and west. In these separate conversations, Deutsch outlined the additional leverage CASAREM provides the Kyrgyz Republic in obtaining a better price for exports in any direction.

Electrifying the Nation

¶6. (C) The Kyrgyz government has appropriated funds to renew construction on the mothballed Soviet-era Kambarata 2 hydroelectric station with the aim for the first turbine to begin operation by January 2010. (Note: Plans call for an additional two turbines at Kambarata 2, which would bring total installed capacity to 360 MW. End note.) Chudinov estimated Kambarata 2 would cost an additional six billion soms (\$171 million) to complete. Its operation, he argued, would make the more expensive Kambarata 1 project more attractive to outside investors. Electric Power Stations' Balkibekov said an upcoming feasibility study would solely

explore financing options for Kambarata 1, and not update the Soviet-era technical plans for the Kambarata complex.

¶ 7. (C) Balkibekov noted that Kambarata 2 would initially produce 300 million kilowatt hours of electricity annually, and explained that the agricultural focus of the original Kambarata project could be modified to increase electricity generated beyond the original 30% utilization plan. The National Electric Grid Company's Sydykov claimed the electricity generated at Kambarata 2 would be used to supply neighboring towns as well as (planned) ferroalloy and aluminum plants. According to Balkibekov, the Kyrgyz national energy plan, which is under discussion, will emphasize the construction of new hydroelectric facilities over renovation/repair of existing facilities.

Who's in Charge of Privatization?

¶ 8. (C) Energy Minister Chudinov conceded that privatization plans for the Bishkek thermal plant, the Severelectro distribution company and the Bishkek heating system are "not moving anywhere." While blaming the dissolved parliament for the delays, Chudinov told Deutsch he favored sale over concession operations for these facilities. He acknowledged the utility of \$2.7 million in possible World Bank assistance for due diligence in advance of any privatization, but added that the State Property Fund had interceded to assert authority over the privatization process. Chudinov said he would approach PM Atambayev about this issue. World Bank resident representative Roger Robinson told Deutsch that the World Bank funds would remain available pending the outcome of the bureaucratic dispute over the privatization process.

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¶ 9. (C) Local representatives of U.S. firm AES told Deutsch they would prefer a management contract over an outright purchase of the Kyrgyz assets marked for privatization. Government officials have told AES that any AES-proposed construction projects at these or other facilities would require a government-controlled tender process. AES representatives expressed reservations about graft, and also noted that senior officials have hinted that decision-making authority for these proposed privatizations rests with President Bakiyev's son, Maxim.

Tariff Increase on the Agenda

¶ 10. (C) Chudinov claimed that he has convinced Acting PM Atambayev to adopt by December 16 a mid-term tariff policy, to take effect April 1, that will raise energy tariffs.
(Note: Parliamentary elections are scheduled for December 16. End note.) President Bakiyev's economic advisor Dikambaev confirmed plans to raise tariffs.

Winter Woes: Water and Natural Gas

¶ 11. (C) Chudinov, noting the low Toktogul reservoir levels (the Toktogul reservoir supplies the main Kyrgyz hydroelectric plants, and may have around 12 billion cubic meters currently in reserve), uncertainties about Uzbek natural gas deliveries and capacity problems at the Bishkek thermal plant, acknowledged there would be electricity shortages this winter. Considering the water shortages, Chudinov remarked that "we are saving more water for Uzbekistan than for ourselves." He said that during a planned December 10 visit by the Kazakh foreign minister, the KazQhs would offer 15,000 tons of mazut (heating oil) for use by the Bishkek thermal plant this winter. The National Grid's Sydykov told Deutsch that Commonwealth of Independent States (CIS) members agreed in October to supply electricity and water this winter to each other "without disruption."

¶12. (C) Energy analyst Omorov noted that plans to replace the aged natural gas pipeline which supplies Bishkek and Almaty, Kazakhstan, with Uzbek natural gas have been sidetracked by Kazakh plans to utilize a planned Turkmen-Chinese pipeline to supply Kazakh needs. He added that Kazakhstan planned to pump 10 billion cubic meters of its own gas into this pipeline for subsequent offloading in southern Kazakhstan. Omorov said the existing pipeline usually provides Bishkek with 700 million cubic meters for local consumption and 2 billion cubic meters for southern Kazakhstan usage. If Kazakh demand is diverted to a new pipeline he argued, a large tariff increase would be required to maintain the pipeline for smaller volumes of natural gas. In addition, this development would increase Tashkent's leverage over Bishkek in annual discussions over natural gas supplies and prices, as well as other issues such as water releases.

Cutting Losses

¶13. (C) Chudinov claimed that technical and commercial losses in the electricity sector have been reduced from 40% to 35-36%. He also boasted that collections have reached 92%. The National Grid's Sydykov, who hails from Chudinov's former employer, the Kyrgyz natural gas company, claimed that the national grid only suffered technical losses of 7%. (Comment: Other estimates put the total losses much higher. End comment.)

Comment

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¶14. (C) The CASAREM initiative, for many Kyrgyz politicians, is beyond the short-term horizon. However, the decisions taken in Kabul necessitate greater Kyrgyz planning for investment, production, transmission and export. Kyrgyz officials understand the greater leverage a southern export route provides, but also are wary of upsetting regional understandings. Kyrgyz reliance on Uzbek natural gas supplies, which could become more costly if the Kazakhs develop an alternate supply route for Almaty, also empowers the Uzbeks to make demands about water supplies and plans for additional hydroelectric facilities. Uzbek President Karimov's statements on water and natural gas at the August Shanghai Cooperation Organization summit in Bishkek were the first salvo in the upcoming discussions over natural gas supplies for this winter.

¶15. (C) Kyrgyz officials' limited appetite for USAID and other outside offers of assistance for due diligence of the three Bishkek-based electricity sector assets slated for privatization does not bode well for their transparent and beneficial transition to capable hands. Although senior Kyrgyz officials have repeatedly advised Embassy that there is no done deal, there are continued reasons for concern regarding the future of these assets. Embassy will continue to monitor developments.

¶16. (U) Robert Deutsch did not have a chance to review this message.

LITZENBERGER